

## Message Text

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NSAE-00 PA-02 USIA-15 PRS-01 SP-02 EB-07 COME-00

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R 231725Z APR 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 0167

INFO AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY LONDON

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PASS TREASURY, FEDERAL RESERVE, COMMERCE

E. O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FORECAST OF FRENCH GROSS INTERNAL PRODUCT  
FOR 1976

1. SUMMARY: BASED ON AN UPWARD SHIFT IN CONSUMPTION,  
INVENTORY CHANGES, AND SOMEWHAT FIRMER EXPORT MARKETS,  
THE FRENCH ECONOMY IS FORECAST TO GROW BY 4.8 PERCENT  
IN REAL TERMS IN 1976. INVESTMENT WILL NOT PICK UP  
UNTIL THE SECOND HALF OF THE YEAR AND PROBABLY NOT  
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GENERALLY UNTIL THE FINAL QUARTER. THE CURRENT ACCOUNT

OF THE BALANCE OF PAYMENTS WILL BE IN DEFICIT BY ABOUT \$3.2 BILLION IN CURRENT PRICES, MAINLY REFLECTING NET TRANSFERS. IMPORTS ARE EXPECTED TO GROW BY 12.5 PERCENT WHILE EXPORTS RISE BY 4.5 PERCENT RESULTING IN A GOODS AND SERVICES DEFICIT OF ABOUT \$900 MILLION. UNEMPLOYMENT WILL REMAIN RELATIVELY HIGH AT BETWEEN 600 AND 700 THOUSAND BY YEAR-END. THE KEY ASSUMPTION IN THIS FORECAST IS THAT THE RATE OF INFLATION WILL REMAIN BELOW 10 PERCENT AT AN ANNUAL RATE IN 1976.

END SUMMARY

## 2. FRENCH DEMAND AND OUTPUT

ESTIMATES FOR 1975, FORECAST FOR 1976;  
IN MILLIONS OF FRANCS (1963) PRICES)

	1974	1975	1976
PRIVATE CONSUMPTION	431.1	443.1	458.4
PUBLIC CONSUMPTION	27.7	30.6	29.7
GROSS FIXED INVESTMENT	202.3	188.1	189.5
-- FINAL DEMAND	661.1	661.8	677.7
STOCKBUILDING	3.3	-23.3	1.8
EXPORTS AND NET SERVICES	151.3	144.2	150.7
IMPORTS	135.6	123.6	139.1
-- NET FOREIGN BALANCE	15.7	20.5	11.6
GROSS INTERNAL PRODUCT	680.1	659.0	691.0

## FRENCH DEMAND AND OUTPUT

ESTIMATES FOR 1975, FORECAST FOR 1976;

CHANGES IN PERCENT

	1974	1975	1976
PRIVATE CONSUMPTION	4.2	2.8	3.5
PUBLIC CONSUMPTION	1.1	10.3	-2.9
GROSS FIXED INVESTMENT	3.6	-7.0	0.8
-- FINAL DEMAND	3.9	0.1	2.4
STOCKBUILDING (1)	0.5	-3.4	0.3
EXPORTS AND NET SERVICES	12.0	-4.7	4.5
IMPORTS	4.5	-8.8	12.5
-- NET FOREIGN BALANCE (1)	2.4	3.0	1.7

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GROSS INTERNAL PRODUCT (2) 3.2 -3.1 4.8

NOTES: (1) CHANGE EXPRESSED AS PERCENT OF G.I.P. IN PRECEDING PERIOD; (2) GROSS INTERNAL PRODUCT IS A MEASURE OF TOTAL OUTPUT, PECULIAR TO FRENCH NATIONAL ACCOUNTS, WHICH IS ESSENTIALLY EQUAL TO GROSS DOMESTIC PRODUCT LESS SERVICES PERFORMED BY GOVERNMENT WORKERS, DOMESTIC SERVANTS, AND PRIVATE INSTITUTIONAL EMPLOYEES.

3. CONSUMPTION: ALTHOUGH FINAL NATIONAL ACCOUNT FIGURES ARE NOT AVAILABLE FOR 1975, IT IS EVIDENT THAT CONSUMPTION HELD UP BETTER THAN THE AUTHORITIES HAD ESTIMATED EARLIER IN THE YEAR, LARGELY BECAUSE OF A 1.7 PERCENT AVERAGE INCREASE IN REAL WAGES, DESPITE HIGH UNEMPLOYMENT, SHORTER AVERAGE WORKING HOURS AND A SHARP DECLINE IN PRODUCTIVITY. CONSUMPTION BEGAN MOVING TOWARD A 3.5 PERCENT ANNUAL RATE IN REAL TERMS IN THE

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SECOND HALF OF 1975. THIS IS LOWER THAN THE HISTORIC RATE OF JUST UNDER 5 PERCENT BUT WELL ABOVE THE 2.1 PERCENT RATE ESTIMATED BY THE AUTHORITIES DURING MOST OF 1975. UNTIL INVESTMENT REVIVES AND UNEMPLOYMENT DECLINES, A RISE ABOVE THE 3.5 PERCENT ANNUAL RATE FOR CONSUMPTION SEEMS UNLIKELY.

4. GOVERNMENT CONSUMPTION: THE ECONOMIC SUPPORT PROGRAM INITIATED IN SEPTEMBER 1975 CAUSED A SURGE OF GOVERNMENT PROCUREMENT WHICH HAS ABOUT RUN ITS UNCLASSIFIED

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COURSE. THUS, THIS COMPONENT OF FINAL DEMAND WILL REVERT TO ITS MORE NORMAL GROWTH TREND IN 1976. SOME REDUCTION IN GOVERNMENT CONSUMPTION IS NECESSARY IF THE AUTHORITIES ARE TO ACHIEVE THEIR FISCAL AND MONETARY OBJECTIVES.

5. FIXED INVESTMENT: THE AUTHORITIES HAVE BEEN INDULGING IN STATISTICAL SOPHISTRY TO SHOW A RISE IN INVESTMENT UNDER THE ECONOMIC SUPPORT PROGRAM IN 1975. INVESTMENT TAX BENEFITS REQUIRED ONLY THE PLACEMENT OF ORDERS BY THE END OF 1975. THUS ORDERS WERE PLACED WELL FORWARD, AND THE FOURTH QUARTER 1975 RISE IN INVESTMENT CITED BY FINMIN FOURCADE HAS YET TO SHOW UP IN TERMS OF ACTUAL SPENDING. VIRTUALLY ALL ANALYSTS IN INDUSTRY, FINANCE, AND WITHIN THE PREVISION OF THE MINISTRY OF ECONOMY AND FINANCE AGREE THAT NO PERVASIVE INCREASE IN INVESTMENT WILL OCCUR UNTIL THE SECOND HALF OF THE YEAR AT THE EARLIEST AND PROBABLY NOT UNTIL THE FINAL QUARTER. AS FIFTY PERCENT OF INVESTMENT RELATED TAX DEFERRALS ARE DUE BY DECEMBER 31, 1976, IT SEEMS LIKELY THAT MOST INVESTMENT ORDERS PLACED EARLIER WILL BE DELIVERED BY YEAR-END AND THAT PARTLY FOR THIS REASON INDUSTRIAL PRODUCTION WILL RISE PROPORTIONATELY DURING THE SECOND HALF OF 1976.

6. STOCKS: REPORTED CHANGES IN INVENTORY HAVE BEEN ONE OF THE MOST BAFFLING ASPECTS OF THE RECENT RECESSION AND CURRENT RECOVERY. MOREOVER, RECENT CHANGES IN GIP DATA (SEE PARIS A-93) SUGGEST THAT THE RECESSION BEGAN EARLIER AND THAT THE TROUGH LASTED LONGER THAN THE PREVIOUS DATA INDICATED. ANY ASSESSMENT IS COMPLICATED BY THE LACK OF DATA FOR INVENTORIES. HOWEVER, THE PREVISION AND MOST OBSERVERS IN THE PRIVATE SECTOR AGREE THAT INVENTORIES OF INTER-MEDIATE GOODS ARE STILL BEING DRAWN DOWN AND THAT INVENTORIES CURRENTLY ARE BEING RESTOCKED IN ONLY A FEW SECTORS, NOTABLY AUTOMOTIVE AND ELECTRICAL

DURABLE GOODS. THE PREVISION DOES NOT ANTICIPATE,  
AS IT ONCE DID, A SHARP RISE IN INVENTORY ACCUMULATION  
THIS YEAR, UNLESS INTERNATIONAL COMMODITY PRICES RISE  
UNEXPECTEDLY. INDUSTRY STILL HAS CONSIDERABLE IDLE  
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CAPACITY AND WHILE CONSUMPTION HAS RISEN IT IS NOT  
EXPECTED TO RISE SUFFICIENTLY TO INDUCE WIDESPREAD  
INVENTORY RESTOCKING AT LEAST UNTIL INVESTMENT PICKS  
UP. NEVERTHELESS, A CONSIDERABLE SWING IS UNDERWAY  
FROM SUBSTANTIAL DESTOCKING TO A MODERATE OVERALL  
BUILDUP OF INVENTORIES, BEGINNING IN THE SECOND  
QUARTER OF 1976. THIS BUILDUP WILL BE RAPID IN  
SOME SECTORS, E.G., IMPORTED INDUSTRIAL MATERIALS,  
AND SLUGGISH IN OTHERS, E.G., TEXTILES AND NON-  
DURABLE CONSUMER GOODS; SO THAT THE NET EFFECT  
PROBABLY WILL BE A MODERATE RATE OF INVENTORY  
ACCUMULATION ON A GIP BASIS.

7. BALANCE OF PAYMENTS: ESTIMATES FOR 1975,  
FORECAST FOR 1976, IN BILLIONS OF FRANCS  
(CURRENT PRICES)

	1974	1975	1976
EXPORTS AND NET SERVICES	217.7	223.1	249.5
IMPORTS			
BALANCE ON GOODS			
AND SERVICES	-18.5	10.7	-3.8
NET TRANSFERS	-10.2	-10.6	-10.8
BALANCE ON CURRENT ACCOUNT	-28.7	0.1	-14.6

THE ABOVE FORECAST ASSUMES AN INFLATION RATE OF LESS  
THAN 10 PERCENT, A FRANC/DOLLAR RATE BETWEEN 4.60 AND  
4.70 AND GENERAL DEVELOPMENTS CONSISTENT WITH THE FORE-  
CAST OF GIP IN PARA 2, PARTICULARLY THE RATES OF REAL  
GROWTH FOR IMPORTS AND EXPORTS.

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THE RELATIVELY HIGH RATE OF IMPORTS PROJECTED FOR 1976 REFLECTS LOW LEVELS OF PRODUCER INVENTORIES, HEAVILY DEPENDENT ON IMPORTS, WHICH MUST RISE IN ORDER TO INCREASE INDUSTRIAL PRODUCTION CONSISTENT WITH PROJECTIONS OF FINAL DEMAND. IN VIEW OF IDLE CAPACITY AND UNEMPLOYMENT AND RELATIVELY GOOD PROFIT MARGINS, FRENCH INDUSTRY MAY SUCCEED IN RECAPTURING DOMESTIC

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MARKETS THIS YEAR TO SOME EXTENT. IF THIS ELEMENT DEVELOPS STRONGLY, A SMALL TRADE SURPLUS WOULD BE A POSSIBILITY IN 1976, PARTICULARLY IN VIEW OF INCREAS-  
INGLY FAVORABLE EXPORT PROSPECTS BASED ON THE APPARENTLY STRONG ECONOMIC RECOVERY IN WEST GERMANY AND THE OVERALL

EFFECTS OF AN EMERGING TRADE DEFICIT IN THE UNITED STATES.

THE LARGE NET TRANSFER PROJECTIONS ARE DERIVED FROM MEDIUM TERM TRENDS. ONE IMPLICATION OF THIS FORECAST IS THAT THE RATIO OF EXPORTS TO IMPORTS WILL BE ABOUT 98 PERCENT FOR THE YEAR. THIS IMPLIES A FRANC/DOLLAR EXCHANGE RATE BETWEEN 4.60 AND 4.70 FOR THE YEAR, UNLESS OTHER DEVELOPMENTS CAUSE SWINGS ON THE CAPITAL ACCOUNT. IN SHORT, IF ALL GOES WELL, FRANCE'S EXTERNAL POSITION SHOULD BE RELATIVELY STRONG IN 1976.

8. KEY ASSUMPTIONS: THE RATE OF INFLATION AND THE INTERRELATED RATES OF WAGE AND PRICE INCREASES ARE THE KEY ASSUMPTIONS OF ANY FORECAST OF THE FRENCH ECONOMY THIS YEAR. IT IS NECESSARY TO ASSUME AN INFLATION RATE OF LESS THAN 10 PERCENT IN ORDER TO PROJECT RECENT TRENDS IN AN INTERNALLY CONSISTENT MANNER. IF THE RATE OF INFLATION RISES TO 11 OR 12 PERCENT OR MORE, THEN EVERYTHING IS GOING TO CHANGE. THE CONSERVATIVE PROJECTIONS FOR THE RATE OF INFLATION IN PARIS RANGE BETWEEN 9 AND 9.5 PERCENT. PUBLIC SECTOR WAGES SEEM TO BE ON VIRTUALLY THE SAME GROWTH TRACK AS LAST YEAR, BUT THE PREVISION OF THE MINISTRY OF ECONOMICS AND FINANCE STILL HOPES THAT SETTLEMENTS IN THE PRIVATE SECTOR WILL BE SOMEWHAT LESS THAN LAST YEAR. PRICE INCREASES, THROUGH THE FIRST QUARTER OF 1976 HAVE BEEN RELATIVELY MODERATE BY FRENCH STANDARDS AND SOME BELIEVE THIS TREND WILL CONTINUE UNLESS INTERNATIONAL COMMODITY PRICES RISE SHARPLY. FINALLY, THE GOF INTENDS TO TIGHTEN MONETARY AND FISCAL POLICY DURING THE SECOND HALF OF THE YEAR, PROVIDED THAT CURRENT RATES OF RELATIVELY RAPID GROWTH ARE SUSTAINED THROUGH THE "VACATION PERIOD". ALL OF THESE ASSUMPTIONS AND INTENTIONS ARE DUBIOUS TO VARYING DEGREES. IN SHORT, THE FRENCH ECONOMY IN 1976 COULD EASILY SLIP

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INTO AN INFLATION RATE HIGHER THAN 10 PERCENT, WHICH WOULD IMPLY A NOMINAL GROWTH RATE ABOVE 16 PERCENT, OR ROUGHLY THE SAME AS IN THE FIRST HALF OF 1974 AND PROBABLY WITH CONSEQUENCES FOR 1977 SIMILAR TO THOSE OF 1975. ON BALANCE THE CHANCES OF THIS HAPPENING SEEM LESS THAN FIFTY-FIFTY, BUT THE ECONOMY CLEARLY REMAINS INFLATION PRONE.

9. WHEN FINAL GIP DATA FOR 1975 ARE AVAILABLE, PROBABLY LATER NEXT MONTH, THE ABOVE FORECASTS WILL BE REVISED MAINLY TO ADJUST PROJECTIONS TO A KNOWN BASE AND PRESENTED, AS PREVIOUSLY, ON A QUARTER-TO-QUARTER

BASIS THROUGH THE SECOND QUARTER OF 1977.

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